

Message Text

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FOR UNDER SECRETARY ROGERS FROM SORENSON

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TAGS: OECD, CIEC, EGEN, ETRD, EFIN, EAID, ENRG

SUBJECT: PROPOSALS SUBMITTED BY THE G-19 ON THE
PROBLEMS OF INDEBTEDNESS OF DEVELOPING COUNTRIES IN
FINANCIAL AFFAIRS COMMISSION

BEGIN TEXT:

FUTURE DEBT RENEGOTIATIONS FOR INTERESTED DEVELOPING
COUNTRIES.

INTEGRAL TO THE CREATIONS OF A NEW INTERNATIONAL
ECONOMIC ORDER IS THE NECESSITY OF GIVING A NEW
ORIENTATION TO PROCEDURES FOR DEBT REORGANIZATION
OF DEBT OWED TO DEVELOPED COUNTRIES AWAY FROM
THE PAST EXPERIENCE OF A PRIMARILY COMMERCIAL
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FRAMEWORK TOWARDS A DEVELOPMENT APPROACH TO THIS END,
THERE IS AN OBVIOUS NEED TO REDESIGN AND REORIENT
THE OPERATIONS SUCH AS THOSE OF THE AID CONSORTIA
AND THE CREDITOR CLUBS IN THE CONTEXT OF

INTERNATIONAL FINANCIAL CO-OPERATION AND KEEPING
IN VIEW THE NATIONAL AND INTERNATIONAL DEVELOPMENT
GOALS AND TARGETS.

TO THIS END, THE COMMISSION ON FINANCIAL AFFAIRS
AGREES TO THE FOLLOWING.

GENERAL OBJECTIVES OF DEBT REORGANIZATION

- I. POLICIES WITH REGARD TO DEBT SHOULD BE CONSIDERED
IN THE OVERALL CONTEXT OF INTERNATIONALLY AGREED
DEVELOPMENT TARGETS WHICH CALL FOR AN INCREASED
NET TRANSFER OF RESOURCES TO DEVELOPING
COUNTRIES, NATIONAL DEVELOPMENT OBJECTIVES
AND WITHIN THE FRAMEWORK OF INTERNATIONAL
FINANCIAL CO-OPERATION
 - II. DEBT REORGANIZATION, IN APPROPRIATE CIRCUMSTANCES,
SHOULD BE RECOGNIZED AS A LEGITIMATE MEANS OF
INCREASING UNITED AND QUICKLY DISBURSABLE RESOURCE
TRANSFERS TO DEVELOPING COUNTRIES IN ACCORDANCE
WITH THEIR DEVELOPMENT NEEDS AND GOALS
 - III. IT SHOULD BE RECOGNIZED THAT OFTEN DEBT
PROBLEMS INDICATE A NEED FOR AUGMENTED FINANCIAL
FLOWS ON APPROPRIATE TERMS IN ADDITION TO
DEBT REORGANIZATION
 - IV. DEBT RELIEF SHOULD NOT BE RESTRICTED TO CASES
OF SO-CALLED DEBT CRISIS SINCE THIS PENALIZES
COUNTRIES THAT HAVE BEEN FORCED TO ABORT
THEIR EXTERNAL DEBTS. THUS, WAYS AND MEANS
MUST BE FOUND FOR DEVELOPING COUNTRIES TO
INITIATE THE RENEGOTIATIONS OF FINANCIAL
ARRANGEMENTS AT AN EARLY STAGE OF EMERGING
DIFFICULTIES
 - V. DEBT POLICIES SHOULD BE APPLIED IN SUCH A WAY
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- THAT DEVELOPMENT PROGRAMMES OF DEVELOPING
COUNTRIES ARE NOT JEOPARDIZED AND THEIR
DEVELOPMENT GOALS ARE ADEQUATELY FULFILLED.
- VI. POLICIES WITH REGARD TO DEBT AND NET RESOURCE
TRANSFERS SHOULD BE CONSIDERED IN AN INTEGRATED
MANNER AGAINST THE BACKGROUND OF INTERNATIONALLY
ACCEPTED TARGETS AND THE ECONOMIC AND SOCIAL
OBJECTIVES AND PRIORITIES AS SPECIFICALLY
ARTICULATED BY THE DEBTOR COUNTRY ITSELF
 - VII. DEBT REORGANIZATION SHOULD CONTRIBUTE TO
SAFEGUARDING THE LEGITIMATE INTERESTS OF BOTH

DEBTOR AND CREDITOR NATIONS AND TO INCREASING THE CAPACITY OF THE DEBTOR COUNTRIES TO DISCHARGE THEIR DEBT SERVICING LIABILITIES OVER THE LONG RUN CONSISTENT WITH THEIR DEVELOPMENT OBJECTIVES.

VIII. DEBT REORGANIZATION SHOULD BE CARRIED OUT WITHIN AN INSTITUTIONAL FRAMEWORK THAT WOULD ENSURE THE APPLICATION OF THE PRINCIPLES OF INTERNATIONAL FINANCIAL CO-OPERATION AND PROTECTS THE INTERESTS OF DEBTORS AND CREDITORS EQUITABLY.

WITHIN THE FRAMEWORK OF THESE GENERAL OBJECTIVES, RENEGOTIATION OF FINANCIAL ARRANGEMENTS INCLUDING, INTER-ALIA, DEBT REORGANIZATIONS, SHOULD BE IMPLEMENTED. RULES AND PROCEDURES SHOULD BE ESTABLISHED TO REGULATE THE ENTIRE PROCESS OF DEBT REORGANIZATION IN ALL ITS STAGES. THIS INVOLVES THE PROCEDURE FOR THE EARLY INITIATION OF INTERNATIONAL ACTION, BY A DEVELOPING COUNTRY, RULES AND PROCEDURES GOVERNING THE ANALYSIS OF THE COUNTRY'S ECONOMIC SITUATION TAKING FULLY INTO ACCOUNT THE DEVELOPMENT NEEDS OF THE DEVELOPING COUNTRY ONCE INTERNATIONAL ACTION HAS BEEN INITIATED

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AND FINALLY, RULES WHICH WOULD PROTECT THE COUNTRY AGAINST THE RECOMMENDATION AND ADOPTION OF MEASURES INCONSISTENT WITH ITS SOCIO-ECONOMIC GOALS AND DEVELOPMENT STRATEGY.

PROCEDURE FOR THE INITIATION OF INTERNATIONAL ACTION

THE PROCEDURE GOVERNING THE INITIATION BY A DEVELOPING COUNTRY OF INTERNATIONAL ACTION WITH REGARD TO THE RENEGOTIATION OF FINANCIAL ARRANGEMENTS SHOULD CONTAIN THREE FUNDAMENTAL ELEMENTS:

FIRST, THE PROCEDURE SHOULD CONFIRM THAT IT IS THE EXCLUSIVE RIGHT OF THE DEBTOR COUNTRY TO INITIATE THE PROCESS OF RENEGOTIATION. IT SHOULD NOT IN ANY WAY OPEN THE POSSIBILITY OF INTERNATIONAL SURVEILLANCE, A PRIORI ANALYSIS OR INTERFERENCE.

SECOND, IT SHOULD RESULT IN ACTION AT AN EARLY STAGE, WELL BEFORE THE PROBLEMS OF THE DEVELOPING COUNTRY HAVE REACHED CRISIS PROPORTIONS AND HAVE DAMAGED ITS DEVELOPMENT PROGRAM.

THIRD, DEVELOPED CREDITOR COUNTRIES SHOULD GUARANTEE TO TAKE ACTION IN ACCORDANCE WITH THE AGREED RULES AND PROCEDURES WHENEVER THE DEVELOPING COUNTRY INITIATES THE PROCESS ACCORDING TO AGREED PRINCIPLES.

IT FOLLOWS FROM THE ABOVE THAT IT WILL BE NECESSARY TO SEEK THE ESTABLISHMENT OF AN AGREED OBJECTIVE PRINCIPLE THAT WOULD ENTITLE A COUNTRY TO INITIATE DISCUSSIONS ON ITS FINANCING REQUIREMENTS WITHIN THE FRAMEWORK OUTLINED ABOVE.

PROCEDURE FOR ANALYSIS OF THE COUNTRY'S LONG-TERM ECONOMIC SITUATION.

HAVING INITIATED THE RENEGOTIATION OF A COUNTRY'S FINANCIAL ARRANGEMENTS, INCLUDING DEBT REORGANIZATION, WITHIN A CONTEXT COMMITTING THE DONOR COUNTRIES TO ACTION, THE NEXT STEP IS THE PREPARATION OF DETAILED ANALYSES OF THE COUNTRY'S LONG-TERM ECONOMIC SITUATION.
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THESE ANALYSES WILL HAVE AS THEIR PRIMARY OBJECTIVE PROTECTION OF THE COUNTRY'S DEVELOPMENT GOALS AND STRATEGY WITHIN THE BROADER CONTEXT OF THE INTERNATIONAL DEVELOPMENT STRATEGY AND THE NEW INTERNATIONAL ECONOMIC ORDER. SECOND, SUCH ANALYSES WILL NOT CALL INTO QUESTION THE SOCIO-ECONOMIC ORIENTATION AND THE DEVELOPMENT PRIORITIES ESTABLISHED BY THE COUNTRY.

INCLUDED IN THESE ANALYSES WILL BE FOUR KEY ELEMENTS:

FIRST, THERE WILL BE ESTIMATES OF LONG-TERM CAPITAL REQUIREMENTS AND PROJECTED AVAILABILITIES. THESE ESTIMATES SHOULD BE MADE FOR A PERIOD OF AT LEAST FIVE YEARS, WHILE THE FINANCIAL IMPLICATIONS SHOULD BE

ANALYZED OVER A SUBSTANTIALLY LONGER PERIOD.

SECOND, AN EXAMINATION WILL BE MADE OF THE EXTENT TO WHICH FACTORS OPERATING IN THE INTERNATIONAL ECONOMY CONTRIBUTED TO THE CURRENT DEVELOPMENTAL AND FINANCIAL PROBLEMS OF THE COUNTRY.

THIRD, A SIMILAR EXAMINATION WILL BE CARRIED OUT OF THE EXTENT TO WHICH CHANGES IN INTERNATIONAL POLICIES MAY HAVE CONTRIBUTED TO THE CURRENT AND PROSPECTIVE SITUATION.

FOURTH, BASED ON THE NET CAPITAL FLOWS REQUIRED BY THE COUNTRY IN THE PURSUIT OF ITS DEVELOPMENT STRATEGY WITHIN THE CONTEXT OF INTERNATIONALLY AGREED TARGETS, THOSE COMBINATIONS OF ADDITIONAL DEVELOPMENT FINANCE, DEBT REORGANIZATION AND NATIONAL AND INTERNATIONAL POLICY ACTIONS WILL BE INDICATED THAT WOULD MOST QUICKLY RESTORE THE COUNTRY BACK TO ITS DEVELOPMENT

PATH.

GUIDELINES FOR FINANCIAL RENEGOTIATION.

GUIDELINES SHOULD BE ESTABLISHED FOR FINANCIAL
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RENEGOTIATIONS. THEY SHOULD BE CONSISTENT WITH SPIRIT
AND CONTENT OF THE INTERNATIONAL DEVELOPMENT STRATEGY
AND THE NEW INTERNATIONAL ECONOMIC ORDER. SPECIFICALLY,
THESE GUIDELINES SHOULD INCLUDE, INTER-ALIA, THE
FOLLOWING ELEMENTS:

FIRST. RENEGOTIATIONS SHOULD BE COMPLETED EXPEDITIOUSLY
IN ORDER TO REDUCE TO THE MINIMUM ANY UNCER-
TAINITIES ASSOCIATED WITH THEM.

SECOND. MEASURES TO BE ADOPTED SHOULD BE CONSISTENT
WITH A RATE OF GROWTH OF PER CAPITA INCOME ABOVE
AN ACCEPTED MINIMUM.

THIRD. MEASURES TO BE ADOPTED SHOULD BE CONSISTENT
WITH THE SOCIO-ECONOMIC OBJECTIVES OF THE
COUNTRY'S DEVELOPMENT STRATEGY.

FOURTH. THE PROVISION OF NEW FLOWS AND THE TERMS OF
DEBT RENEGOTIATION SHOULD BE ON A LONG-TERM
BASIS CONSISTENT WITH THE COUNTRY'S LONG-TERM
FINANCIAL AND DEVELOPMENTAL NEEDS AS REFLECTED
IN THE ANALYSIS.

FIFTH. THE TERMS AND CONDITIONS OF RESCHEDULED COM-
MERCIAL DEBTS SHOULD BE NO HARSHER THAN THE
BEST TERMS PREVAILING IN THE INTERNATIONAL
FINANCIAL MARKETS. THE CONDITIONS OF OFFICIAL
DEBT RESCHEDULING SHOULD BE AT LEAST AS SOFT
AS THOSE ASSOCIATED WITH CURRENT COMMITMENTS
AT THE TIME OF RENEGOTIATION.

SIXTH. PROVISIONS SHOULD BE INCLUDED TO FACILITATE
ADDITIONAL FLOWS OR ACCELERATED REPAYMENTS IF
THE ANALYSIS PROVED EITHER TOO OPTIMISTIC OR
TOO PESSIMISTIC WITH RESPECT TO THE PACE OF
THE COUNTRY'S RECOVERY.

INSTITUTIONAL ARRANGEMENTS FOR FINANCIAL RENEGOTIATIONS.

AN INSTITUTIONAL FRAMEWORK SHOULD BE PROVIDED
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FOR, WHICH WILL HAVE THE AUTHORITY TO CONVENE, ORGANIZE
AND SUPERVISE FINANCIAL RENEGOTIATIONS IN ACCORDANCE
WITH INTERNATIONALLY AGREED PRINCIPLES, RULES AND
PROCEDURES. END TEXT.

THESE PROPOSALS WILL BE DISCUSSED FURTHER IN FINANCIAL
AFFAIRS COMMISSION ON SEPTEMBER 17.

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